

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Bad Axe Area Fire Protection Association	County Huron
Fiscal Year End 12/31/06	Opinion Date 06/08/07	Date Audit Report Submitted to State June 21, 2007	

We affirm that:

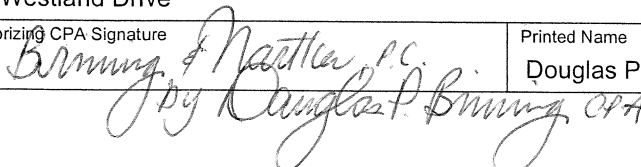
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☒ ☐ The local unit is free of repeated comments from previous years.
  - ☐ ☒ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>	No written comments or recommendations		
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Brining & Nartker, P.C.		Telephone Number 989-269-9909		
Street Address 64 Westland Drive		City Bad Axe	State MI	Zip 48413
Authorizing CPA Signature 		Printed Name Douglas P. Brining, CPA		License Number 08283

**BAD AXE AREA FIRE PROTECTION ASSOCIATION  
BAD AXE, MICHIGAN**

**FINANCIAL REPORT  
DECEMBER 31, 2006**

# **BAD AXE AREA FIRE PROTECTION ASSOCIATION**

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# BRINING & NARTKER, P.C.

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## INDEPENDENT AUDITORS' REPORT

Bad Axe Area Fire Board  
Bad Axe Area Fire Protection Association  
420 S. Hanselman Street  
Bad Axe, Michigan 48413

We have audited the accompanying basic financial statements of the Bad Axe Area Fire Protection Association, as of December 31, 2006, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Management has not prepared their discussion and analysis information for the Bad Axe Area Fire Protection Association. This discussion is required by U.S. generally accepted accounting principles as supplemental information.

In our opinion, except for the omission of management's discussion and analysis as discussed in the previous paragraph, which results in an incomplete presentation, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Bad Axe Area Fire Protection Association as of December 31, 2006, and the results of its operations for the year then ended, in conformity with U.S. generally accepted accounting principles.

The budgetary comparison information on page 10 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

  
BRINING & NARTKER, P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

June 8, 2007

## **BASIC FINANCIAL STATEMENTS**

**BAD AXE AREA FIRE PROTECTION ASSOCIATION  
STATEMENT OF NET ASSETS  
DECEMBER 31, 2006**

ASSETS:

Current assets:

Cash	\$ 222,950
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Noncurrent assets:

Capital assets (net of accumulated depreciation)	437,855
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TOTAL ASSETS	<u>660,805</u>
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LIABILITIES:

Current liabilities:

Payroll withholdings payable	2,995
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Noncurrent liabilities	-
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TOTAL LIABILITIES	<u>2,995</u>
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NET ASSETS:

Investment in capital fixed assets net of related debt	437,855
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Unrestricted	219,955
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TOTAL NET ASSETS	<u>\$ 657,810</u>
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The accompanying notes are an integral part of the financial statements.

**BAD AXE AREA FIRE PROTECTION ASSOCIATION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

PROGRAM EXPENSES:

Public Safety

Personal services	\$ 84,801
Supplies	11,145
Professional and contracted services	2,984
Communications	3,560
Utilities	5,529
Repairs	17,631
Insurance	19,152
Other	1,446
Depreciation expense	65,980

TOTAL PROGRAM EXPENSES

212,228

PROGRAM REVENUES:

Charges for services

15,293

Operating contributions

231,665

TOTAL PROGRAM REVENUES

246,958

NET PROGRAM REVENUE

34,730

GENERAL REVENUES:

Interest

5,273

Other

4,403

TOTAL GENERAL REVENUES

9,676

CHANGE IN NET ASSETS

44,406

NET ASSETS - BEGINNING OF YEAR

613,404

NET ASSETS - END OF YEAR

\$ 657,810

The accompanying notes are an integral part of the financial statements.

**BAD AXE AREA FIRE PROTECTION ASSOCIATION  
GOVERNMENTAL FUND BALANCE SHEET  
DECEMBER 31, 2006**

	<u>GENERAL FUND</u>
<u>ASSETS</u>	
Cash	\$ 222,950
TOTAL ASSETS	<u><u>\$ 222,950</u></u>
<u>LIABILITIES AND FUND BALANCE</u>	
LIABILITIES:	
Payroll withholdings payable	\$ 2,995
TOTAL LIABILITIES	<u>2,995</u>
FUND BALANCE:	
Reserved	163,593
Unreserved	56,362
TOTAL FUND BALANCE	<u>219,955</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 222,950</u></u>

**BAD AXE AREA FIRE PROTECTION ASSOCIATION  
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO  
THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

Total governmental fund balance	\$ 219,955
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	437,855
Net assets of governmental activities	<u><u>\$ 657,810</u></u>

The accompanying notes are an integral part of the financial statements.



**BAD AXE AREA FIRE PROTECTION ASSOCIATION  
GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	GENERAL FUND
REVENUES:	
Contribution from City of Bad Axe	\$ 94,056
Contribution from Colfax Township	75,523
Contribution from Verona Township	62,086
Response fees	15,293
Interest	5,273
Other	4,403
TOTAL REVENUES	<u>256,634</u>
EXPENDITURES:	
Current:	
Public safety	146,248
TOTAL EXPENDITURES	<u>146,248</u>
NET CHANGE IN FUND BALANCE	<u>110,386</u>
FUND BALANCE - JANUARY 1, 2006	109,569
FUND BALANCE - DECEMBER 31, 2006	<u><u>\$ 219,955</u></u>

**BAD AXE AREA FIRE PROTECTION ASSOCIATION  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

Net change in fund balance	\$ 110,386
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:	
Capital outlay	-
Depreciation	(65,980)
Change in net assets of governmental activities	<u><u>\$ 44,406</u></u>

The accompanying notes are an integral part of the financial statements.

**BAD AXE AREA FIRE PROTECTION ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Bad Axe Area Fire Protection Association conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Bad Axe Area Fire Protection Association.

Description of Association Operations

The Association was formed pursuant to the terms of an interlocal agreement dated September 7, 1989. The Association began operations in January 1990 and its purpose is to provide fire protection to the residents and property owners of the constituent units which include the City of Bad Axe, Colfax Township and Verona Township in Huron County, Michigan.

The Association operates under an appointed board consisting of representatives from each constituent unit. All representatives are appointed by their respective governing bodies by resolution and serve following appointment, until a successor is appointed. A board member is eligible for reappointment at the expiration of his (or her) term of office, and must be a resident of the constituent unit which he (or she) represents. A board member shall not be an employee of any fire department of the Association.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14 as amended by GASB 39, the definition of the reporting entity is based primarily on the premise of financial accountability. The Association is a primary government and is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it. These types of organizations are deemed component units.

Based on these provisions, there are no organizations that are deemed to be component units of the Association.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (i.e., statement of net assets and statement of activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Capital Assets

Capital outlays are recorded as expenditures of the General Fund and as assets in the government-wide financial statements. Capital assets are defined by the Association as assets with an initial individual cost of \$10,000 or more and an estimated life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. Depreciation is recorded on capital assets on a government-wide basis using the straight-line method using the following estimated useful lives:

(Continued)

**BAD AXE AREA FIRE PROTECTION ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(CONTINUED)**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Capital Assets (Continued)

Buildings	10 - 40 years
Equipment	5 - 20 years

Accounting Estimates

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE 2 – BUDGET INFORMATION**

The budget and all amendments thereto, for the General Fund have been shown at the line item level. The approved budget was adopted at the fund level on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at year-end. The General Fund does not utilize encumbrance accounting.

Excess of Expenditures Over Appropriations in Budgetary Funds

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended December 31, 2006, actual expenditures did not exceed budgeted expenditures.

**NOTE 3 – CASH**

The Association's cash account consists of an interest bearing checking account and certificates of deposit. As of December 31, 2006, the carrying amount and the bank balance of the accounts amounted to \$222,950 and \$224,113, respectively. The amount is fully covered by federal depository insurance.

**NOTE 4 – CAPITAL ASSETS**

Capital assets activity for the current year was as follows:

	Balance January 1, 2006	Increases	Decreases	Balance December 31, 2006
Capital Assets Being Depreciated				
Buildings	\$ 237,727	\$ -	\$ -	\$ 237,727
Equipment	827,415	-	-	827,415
	<u>1,065,142</u>	<u>-</u>	<u>-</u>	<u>1,065,142</u>
Less Accumulated Depreciation for				
Buildings	67,620	7,661	-	75,281
Equipment	493,687	58,319	-	552,006
	<u>561,307</u>	<u>65,980</u>	<u>-</u>	<u>627,287</u>
Governmental Activity Net Capital Assets Being Depreciated	<u>\$ 503,835</u>	<u>\$ (65,980)</u>	<u>\$ -</u>	<u>\$ 437,855</u>

**BAD AXE AREA FIRE PROTECTION ASSOCIATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2006  
(CONTINUED)**

**NOTE 5 – RESERVED FUND BALANCE**

Reserved fund balance consists of a cash residual resulting from the receipt of memorials and fundraisers to be used for the purchase of equipment. In addition, funds have been transferred into a certificate of deposit to be used for the purchase of equipment. The balance at December 31, 2006 is as follows:

Balance January 1, 2006	\$ 28,118
Donations and fundraisers	165
Interest on certificates of deposit	4,310
Funds used to purchase certificate of deposit	131,000
Purchase of equipment	-
Balance, December 31, 2006	<u><u>\$ 163,593</u></u>

**NOTE 6 – CONTRIBUTIONS**

In the event that it is necessary to finance all or any part of the operating fund or capital expenditures of the Association by contribution, the contribution to be made to the Association by each constituent unit shall be equal to that percentage or proportion which each constituent bears to the whole of the Association based upon the state equalized value of all property. State equalized values shall be based upon figures from the most recently completed calendar year. To be binding upon a constituent unit, any contribution must be authorized by resolution of the governing body of that constituent unit. The failure of the governing body of any constituent unit to authorize its contribution to the Association and/or to pay the same in full to the Association within thirty (30) days of the commencement of the Association's fiscal year shall operate as an immediate withdrawal of that constituent unit from the Association.

Contributions for the year ended December 31, 2006 were \$94,056, \$75,523 and \$62,086 for the City of Bad Axe, the Township of Colfax and the Township of Verona, respectively.

**NOTE 7 – RETIREMENT PLAN**

The Association offers a Savings Incentive Match Plan for Employees (SIMPLE) to the full time employee. The eligible employee determines the amount of his elective deferral and the Association matches that deferral up to 3% of compensation. The 2006 employer contribution amounted to \$1,042.

## **SUPPLEMENTAL INFORMATION**

**BAD AXE AREA FIRE PROTECTION ASSOCIATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUES:				
Contribution from City of Bad Axe	\$ 94,056	\$ 94,056	\$ 94,056	\$ -
Contribution from Colfax Township	75,523	75,523	75,523	-
Contribution from Verona Township	62,086	62,086	62,086	-
Response fees	8,600	8,600	15,293	6,693
Interest	500	500	5,273	4,773
Donations	-	-	165	165
Miscellaneous	-	-	4,238	4,238
<b>TOTAL REVENUES</b>	<u>240,765</u>	<u>240,765</u>	<u>256,634</u>	<u>15,869</u>
EXPENDITURES:				
Audit services	2,000	2,000	1,585	415
Community promotion	450	150	-	150
Contractual service	800	1,100	785	315
Dues and subscriptions	600	600	575	25
Education and training	1,000	1,000	598	402
Equipment repair	2,000	15,000	13,251	1,749
Expendable equipment	14,000	14,000	4,586	9,414
Gas and oil	3,400	3,400	2,247	1,153
Insurance - general	27,000	18,000	14,573	3,427
Insurance - vehicle	11,000	11,000	8,186	2,814
Insurance - workers compensation	10,000	6,000	1,855	4,145
Legal service	2,500	2,500	614	1,886
Maintenance	4,000	3,000	2,342	658
Office supplies	1,500	1,500	721	779
Operating supplies	5,200	5,200	3,494	1,706
Payroll expenses	85,000	85,000	79,339	5,661
Printing and publishing	150	150	-	150
Radio equipment	5,000	5,000	1,997	3,003
Radio repair	1,000	1,000	605	395
Travel and meals	500	500	273	227
Utilities	12,200	12,200	7,091	5,109
Vehicle maintenance	7,000	7,000	1,434	5,566
Water	465	465	97	368
<b>TOTAL EXPENDITURES</b>	<u>196,765</u>	<u>195,765</u>	<u>146,248</u>	<u>49,517</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>44,000</u>	<u>45,000</u>	<u>110,386</u>	<u>65,386</u>
<b>FUND BALANCE - JANUARY 1, 2006</b>	109,569	109,569	109,569	-
<b>FUND BALANCE - DECEMBER 31, 2006</b>	<u>\$ 153,569</u>	<u>\$ 154,569</u>	<u>\$ 219,955</u>	<u>\$ 65,386</u>